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Joint Committee on the Master Plan for Higher Education
California Legislature

Hearing on Affordability and Student Aid
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Assemblyman Ruskin, Senator Negrete McLeod, and Members of the Committee:

Thank you for the invitation to address the committee on the subject of college affordability and student aid, a pressing issue not just here in California but across the country as well. It is fitting that the California Legislature conducts this review upon the 50th anniversary of the Master Plan.

The Master Plan, and the commitment that the people of California put behind it, helped to create what is generally recognized as the nation's finest public higher education system. The latest *U.S. News & World Report* rankings has 6 campuses of the University of California among the nation's top 50 universities, both public and private. Those six campuses are all rated among the top 15, including the top two, among public universities in the nation. And those six campuses are all ranked among the top 200 universities in the world, public and private, as ranked by the *Times Higher Education* in London.

U.S. News & World Report also ranks nine of the California State University campuses among the top 15 public master's universities in the western region of the United States. And the California Community Colleges are widely respected around the nation for providing access to postsecondary education for over 1.5 million Californians. The three sectors together serve over two million students, or about one in every six students attending public institutions of higher education in the nation.[1]

The original Master Plan established three pillars on which support for higher education in the state would be built:

(a) the size of the stream of income from which support must be drawn;

(b) the efficiency and effectiveness of the tax instruments by which this support is realized; and

(c) the will of the people of the state to devote adequate funds for this purpose (pp. 182-183).[2]

While not explicitly stated in the Master Plan, I would add to these three pillars the responsibility of the institutions of higher education to operate as efficiently as possible in their use of state tax dollars and other resources, while maintaining a high standard of quality.

As we all know, quite a bit has changed in the ensuing five decades. A series of changes introduced by the legislature, along with through the initiative petition process, have restricted the ability of the state to raise taxes, and much of the tax revenue that is collected is dedicated to particular purposes other than higher education.

One additional change in our society, one that is as important as all these others, has also occurred during this period. Today, a college education is even more critical for both individuals as well as the State of California than it was in 1960. Many more jobs today, jobs that allow the holder to enjoy what we often describe as a "middle class lifestyle" – both wages and benefits – require some form of postsecondary education.

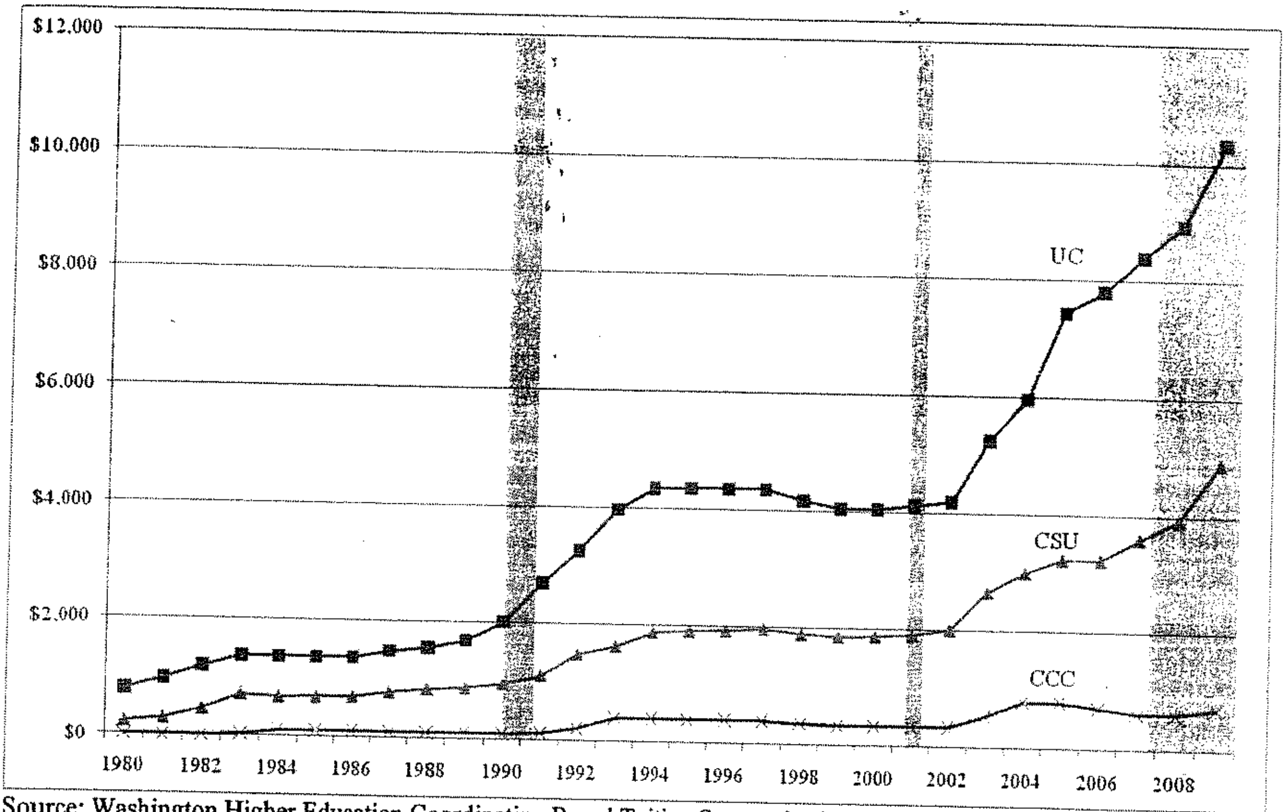
California, as much as any state, has been battered by the current economic recession. The impact on the state budget, and in turn, on the fiscal health of the three sectors of higher education in the state, is unprecedented in most of our lifetimes. Both the University of California and California State University saw their appropriations cut by approximately 20% this year, and while the community colleges sustained a proportionally smaller cut, they still lost hundreds of millions of dollars in state funding. While federal stimulus money has helped to close some of the gap, the bottom line is that the three sectors have been greatly impacted by the budget shortfall. The result is that all three sectors are struggling to meet the increasing demand for a college education, as citizens turn to colleges and universities to help increase their skills and job prospects in the recession.

Another recommendation of the original Master Plan was that the state maintain the principle of charging no fees, or tuition, for residents of the state. This principle has had to be compromised, as fees

[1] National Center for Education Statistics (2009, March). *Digest of Education Statistics, 2008* (Table 217). Washington, DC: U.S. Department of Education.

[2] California State Department of Education. (1960). *A Master Plan for Higher Education in California, 1960-1975.* Sacramento: Author.

have been introduced in all three sectors over the years, and have increased rapidly during and following the last three recessions – in the early 1990s, the early part of this decade, and the current one (Figure 1).



Source: Washington Higher Education Coordinating Board Tuition Survey, institutional websites
Note: Shaded areas indicate national recessions as determined by the National Bureau of Economic Research

Figure 1: Resident student fees in California

These tuition trends are not unique to California; they mirror what is happening in most of the rest of the nation. Over the last three decades, average prices in all three major college sectors – public and private 4-year institutions, and community colleges, have risen from approximately two to three times faster than have consumer prices, or family incomes. This means that the price of college has become proportionally less affordable for most families over this time period.

Another important trend during these three decades has been a shift in the way financial aid is provided to students. Thirty years ago, a student who qualified for the maximum Pell Grant, the primary federal need-based grant program, would receive enough aid from that source alone to effectively cover all of their cost of attendance – fees, room, board, and other expenses – at any of the three sectors in

California. Today, the maximum Pell Grant would cover only about half of the fees alone at the University of California, and just a little more than fees at Cal State.[3]

In addition to this erosion of the purchasing power of the Pell Grant over the years, there are two other important trends nationwide. First, institutions have become the most important source of grant aid. In 1990, funding for Pell Grants was greater than all institutional grant aid for undergraduates across the country. Today, institutions award one-third more grant aid than does the Pell Grant program.

Second, loans have become a much larger part of the financial aid landscape. In 1990, grants represented 61% of all financial aid for undergraduates, and loans provided 36%. Today, the proportion of aid in the form of grants has dropped to 46%, and loans now make up half of all aid.

What do these trends mean for college access and success? The research that I and others have conducted on college participation – including access, persistence, and degree attainment – demonstrates a very clear relationship between prices and participation. In the broadest sense, higher education is what economists describe as a "normal good" – as prices rise, consumers are likely to purchase less of it.

The research also tells us that:

- low- and moderate-income students are more price sensitive than are higher-income students;
- grants are most effective at encouraging college success, particularly for lower-income students, than are loans;
- loans have proven to be an effective college financing tool for students from middle- and upper-income families; and
- students from first generation and lower-income families generally have poor information about financial aid, and thus are more likely to respond to the sticker price than the net price (after financial aid).

Thus, the challenge for maintaining college access and success for historically underserved populations as tuition prices rise is to ensure that there is adequate financial aid, particularly grant aid for them. Equally critical is that they have early and accurate information about the availability of aid, so that they have the necessary time to prepare themselves for college academically, socially, and financially.

What this means is that we cannot wait until students are seniors in high school to provide them with information about college costs and financial aid, as is typically the pattern in this country. This information needs to get into the hands of students who will be dependent on financial aid to attend college much earlier in their educational careers.

There are a number of initiatives that attempt to do this. Some, like the GEAR-UP program, are sponsored by the federal government in partnerships with universities, school districts, and business and

[3] Data on financial aid are taken from The College Board (2009), *Trends in Student Aid.*

community groups. Other efforts around the country are sponsored by state governments, foundations, or by universities themselves. Wherever they come from, these kinds of programs are critical to ensuring that students have adequate time to prepare themselves in all manners necessary to enter postsecondary education and demonstrate success once there.

Let me turn back now to California, and the Master Plan. I think it is fair to say that the era of universal low tuition, at least at UC and Cal State, is gone forever. I can foresee no scenario under which the state would be willing and able to return to that college financing scheme. Once the economy of California rebounds, however, it is critical that the governor and legislature restore funding for the three sectors to *at least* the levels they enjoyed – on a per-student, and inflation-adjusted basis – before the fiscal crisis.

As I pointed out in an op-ed column published in *The San Francisco Chronicle* in December, the institutions are taking steps to protect financially-needy students. Both UC and Cal State have programs in place to recycle a portion of their tuition revenue in the form of need-based grants. For example, the UC Blue and Gold Opportunity Plan next year will guarantee that students with financial need and family income below $70,000 will not pay any fees. The CSU system has committed over $400 million this year for its State University Grant program, in which it recycles tuition revenue into need-based grants of up to $5,600 for its students.

Given the constraints on state funding for higher education that exist today and are likely to continue into the future, the reality is that fees are going to have to continue to rise faster than family incomes in the state. If the three sectors of higher education are going to maintain their ability to deliver high-quality education, then they are going to continue to have to rely on fee revenues. This is not to say that they should not pursue other sources of revenue, as well as ensure that they are operating as efficiently and effectively as possible in their use of state and student funds. But it is clear that fees will continue to be an important source of revenue.

My recommendation is that the California Legislature as well as the three sectors of higher education focus on how to maximize the financial aid resources targeted at low- and moderate-income students. In addition, you need to ensure that these students are provided with information about all sources of financial aid – from the federal government, from the state, and from the institutions themselves, early in their secondary school careers.

Thank you for your time and attention. I would be happy to take your questions after all the members of the panel have had an opportunity to speak.